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CONTENTS

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This Month's Authors

OTHA L. GRAY

The subject of the states' powers of taxation on the net income of corporations engaged in interstate commerce is of primary concern to many citizens. A change in the traditional view that interstate commerce is immune from taxation, under the Due Process and Commerce Clauses, will introduce numerous problems, a major one of which will relate to the fair apportionment of the net income of such corporations to the respective states involved.

Mr. Gray is a C.P.A., a member of the Georgia Bar, and Associate Professor of Accounting, School of Business Administration, Georgia State College of Business Administration.

W. T. TUCKER

In a previous article (*Atlanta Economic Review*, February 1959) Dr. Tucker discussed the profit-maximization concept of advertising, as well as other nonselling effects of the advertising function. In the current article he presents, in addition to current theoretical methods of determining the advertising appropriation, the various methods actually used. He concludes that psychological influences play a major part in resolving the advertising budget.

Dr. Tucker's articles are the result of a study of the advertising appropriations methods of several hundred banks. The complete study is published by the Bureau of Business and Economic Research as Bulletin Number 3 ($1.50 plus 5c sales tax in Georgia).

Dr. Tucker is Associate Professor of Marketing, School of Business Administration, Georgia State College of Business Administration.

RAY G. JONES, JR.
CLAUDE A. CAMPBELL

In their article on Georgia's tufted textile industry, the authors present some of the problems besetting an industry developing from small scale, local beginnings, and the way in which many of the problems have been overcome. The phenomenal growth of the tufted textile industry has resulted in an immense contribution to the economy of the Dalton area and the state.

This article is condensed from the larger study, Research Paper Number 12, published by the Bureau of Business and Economic Research.

Mr. Jones, from Dalton, Georgia, is Chief Referee of the Financial Responsibility Division of the Florida State Treasurer's Office; and Mr. Campbell is Professor of Finance, School of Business, Florida State University.

WARREN A. WALKER

Mr. Walker, Economist of the Planning Unit of the Georgia Department of Commerce, devotes the current "Southeastern Corner" to some of the indicators used to measure economic development. He points out the progress of the Southeast in relation to that of the nation as a whole, as demonstrated by the indicators of bank deposits, value of construction, and certain phases of agricultural activity.

Does a state have the power to tax a portion of the net income of a corporation engaged exclusively in interstate commerce? Recent court decisions have opened up broad possibilities of state taxation on the net incomes of such corporations.

State Taxation of Multi-State Corporations

Implications of Current Developments

by

Otha L. Gray

With the recent decision of the U. S. Supreme Court in the cases of **Williams v. Stockham Valves & Fittings, Inc.,**[1] and **Northwestern States Portland Cement Company v. Minnesota,**[2] another chapter appears to have been written in state taxation—subject only to revision by Congress through its exercise of paramount power over interstate commerce under the Commerce Clause[3] of the U. S. Constitution. Any immediate exercise of this power by Congress appears highly unlikely in view of the inaction in this subject area throughout our entire Constitutional history despite repeated pleas from both the Court and the taxpayers.

The recently decided cases concern the constitutionality of state net income tax laws levying taxes on that portion of a "foreign"[4] corporation's net income earned from and fairly apportioned to business activities within the taxing state when those activities are exclusively in furtherance of interstate commerce and there is no intrastate activity of such a character as to constitute intrastate commerce. Because of the similarity of the taxes in the two recent cases, the court consolidated them for decision.

The facts in the Georgia case of **Williams v. Stockham Valves** are stated by the Court as follows:

> The respondent here is a Delaware Corporation with its principal office and plant in Birmingham, Alabama. It manufacturers and sells valves and pipe fittings through established local wholesalers and jobbers who handle products other than respondent's. These dealers were encouraged by respondent to carry a local inventory of its products by granting to those who do so a special price concession. However, the corporation maintained no warehouse or storage facilities in Georgia. It did maintain a sales-service office in Atlanta, which served five States. This office was headquarters for one salesman who devoted about one-third of his time to solicitation of orders in Georgia. He was paid on a salary plus commission basis while a full-time woman secretary employed there received a regular salary only. She was a "source of information" for respondent's products, performed stenographic and clerical

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1. Reported at 27 U. S. Law Week, p. 4141 (Feb. 24, 1959).
2. Ibid.
3. U. S. Constitution, Art. 1, Sec. 8, Clause 3.
4. With reference to the laws and the courts of any given state, a "domestic" corporation is one created by, or organized under, the laws of that state; a "foreign" corporation is one created by or under the laws of another state, government or jurisdiction. Black's Law Dictionary, 4th ed. 1951.

services and "facilitated communications between the . . . home office in Birmingham . . . the sales representative . . . and customers, prospective customers, contractors and users of [its] products." Respondent's salesman carried on the usual sales activities, including regular solicitation, receipt and forwarding of orders to the Birmingham office and the promotion of business and good will for respondent. Orders were taken by him, as well as the sales-service office, subject to approval of the home office and were shipped from Birmingham direct to the customer on an "f.o.b warehouse" basis. Other than office equipment, supplies, advertising literature and the like, respondent had no property in Georgia, deposited no funds there and stored no merchandise in the State.[5]

An additional fact of importance is that the corporation had not qualified to do business within Georgia under statutory requirements. The right of foreign corporations to engage in business within a state other than that of its creation depends solely upon the will of such other state and is generally concerned with powers, privileges, and conditions imposed upon a foreign corporation as a condition preliminary to transacting business therein. However, most prior tax cases have depended upon the statutory qualifications of "doing of business" within a state as sufficient to grant jurisdiction over the foreign corporation to assess an income tax.

Prior to amendment in 1950[6] the Georgia Income Tax Law was held not to apply to a foreign corporation soliciting orders through an office in the state, followed by shipment of goods from another state direct to the Georgia customer.[7]

The amended law, with the stated purpose of exhausting the State's taxing power, is stated in Georgia Code Ann. (1933) 92-3113:

Corporations, allocation and apportionment of income—
The tax imposed by this law shall apply to the entire net income, as herein defined, received by every corporation, foreign or domestic, owning property or doing business in this State. Every such corporation shall be deemed to be doing business within this State if it engages within this State in any activities or transactions for the purpose of financial profit or gain, whether or not such corporation qualifies to do business in this State, and whether or not it maintains an office or place of doing business within this State, and whether or not any such activity or transaction is connected with interstate or foreign commerce. . . .

To apportion net income under the above-cited section, the Act applies a three-factor ratio based on inventory, wages, and gross receipts.[8] Stockham bases its right to recover taxes paid for the taxable years 1952, 1954, and 1955 upon the grounds that the Georgia Act, as it is applied to a foreign corporation engaged in exclusive interstate commerce within Georgia, is invalid under both the Commerce and Due Process Clauses of the Constitution of the United States. Never before has the Court had to face the question of validity of a direct net income tax on interstate business alone where there were no intrastate activities of such a nature to be characterized as intrastate commerce.

The Court recognized the importance of the question presented in the field of state taxation by pointing out that thirty-five states impose direct net income taxes on corporations. Not more than perhaps a half-dozen, however, attempt to levy a tax on the net income of a foreign corporation doing an exclusive interstate business within their jurisdiction. The decision in the instant case will give added incentive to every state to revise its laws to impose this newly validated levy. Of the southeastern states specifically, Mississippi is reported to have amended its Income Tax Act in 1958 to require of foreign corporations reports of all income from activities or transactions engaged in within Mississippi for profit or gain, whether or not the taxpayer is qualified to do business in Mississippi, maintains an office or place of business, or the activity or transaction is in interstate or foreign commerce.[9]

With reference to the similar Georgia statute, the majority opinion in the *Stockham* case concluded:

. . . that the net income from the interstate operations of a foreign corporation may be subjected to state taxation provided the levy is not discriminatory and is properly apportioned to local activities within the taxing State forming sufficient nexus to support the same.[10]

Thus the emphasis is now shifted more than ever to proper apportionment methods, and the burden is upon the taxpayer to show that the levy is patently discriminatory against the interstate commerce or that the formula or apportionment "places a burden upon interstate commerce in a constitutional sense."

SOME BACKGROUND OF STATE TAXATION AND INTERSTATE COMMERCE

Understanding state tax problems necessitates a knowledge of constitutional principles underlying the levy of state and local taxes. No matter how desirable from an economic, social, or administrative viewpoint, a tax may not be levied if it contravenes constitutional limitations. The two basic Federal Constitutional limitations upon state taxing power are the Due Process and Commerce Clauses of the Federal Constitution, although neither of these limitations makes express reference to taxation.

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5. 27 U. S. Law Week, p. 4142.
6. Ga. Laws 1950, p. 299.
7. Redwine v. Dan River Mills, Inc., 207 Ga. 381, 61 S. E. 2nd 771, cert. den. 340 U. S. 954, Redwine v. U. S. Tobacco Co. 209 Ga. 725, 75 S. E. 2nd 556 (1953); Redwine v. Schenley Industries, Inc., 210 Ga. 769, 83 S. E. 2nd 16 (1954).
8. Ga. Code Ann. (1933) 92-3113.
9. Reported in State Tax Review, Commerce Clearing House, Inc., p. 5, (Dec. 8, 1958).
10. 27 U. S. Law Week, p. 4141.

Due Process

Due Process makes it plain that no state may tax anything outside its jurisdiction. In reaching for a source of revenue the state must not impose a tax on a subject which will result in a taxation on extraterritorial values. There must be a "sufficient nexus between such a tax and transactions within a state for which the tax is an exaction." Thus the test of Due Process must be met before any tax can be sustained. Usually both questions of Due Process and Commerce are found in disputed tax cases involving interstate commerce. Taxes imposed on a multi-state enterprise for the privilege of doing a local business where there is no apportionment, or the apportionment is plainly inequitable, have been set aside on both grounds. In a number of cases the Court has pointed out that the satisfaction of Due Process will satisfy Commerce Clause requirements; yet this is not universally true. When a state has jurisdiction over business within its borders done by taxpayers, both residents and nonresidents, it may tax the income therefrom.[11] A domestic corporation or resident may be taxed on all such income, including net income from interstate commerce; and a foreign corporation or nonresident may be taxed on so much of the income as is allocable to the state under the various allocation formulas. Thus it becomes most obvious that a business corporation doing multi-state business may become subject to multiple tax filings and onerous compliance regulations. The entire net income may be taxed by the state of corporate domicile, while at the same time the various states wherein the income is earned from activities within the territorial jurisdiction thereof also are empowered to exact a tax on an allocable portion of net income under nonuniform allocation formulas, subject only to proscriptions under the Federal Constitution. Chiefly these Federal limitations are the Commerce Clause and the Due Process requirements. With the decision in the instant case of *Stockham Valves* the Commerce Clause proscriptions appear to have been substantially eliminated.

Commerce Clause

Turning briefly to the Commerce Clause and implied limitations upon state taxing power, we find that inherent within our Federal system there are questions concerning the appropriate relations between the competing local revenue interests of the states and the national interest in a unified national economy—an economy implemented by the flow of interstate commerce among the states and unimpeded by a host of local revenue extractions at the boundaries of every state and political subdivision. Our national economy does not accommodate itself to the artificial political lines of state borders; yet, to cut off the states completely from reaching multi-state business as a revenue source would deal a crippling blow to state governments in their time of financial crisis.

The Attitude of the Courts

Congress has ample power under its Congressional authority to regulate commerce between the states and to determine the extent and mode of state taxation of interstate business; but, with rare exceptions, that power has not been exercised. In the neglect of Congress to act, the Supreme Court has assumed throughout our entire Constitutional history the role of acting as final arbiter in balancing the conflicting demands of the states for revenue and the nation for an economy not unreasonably hampered by state action.

The history of the problem is spread over hundreds of volumes of the Court reports. In this field the opinions must be read in the setting of the particular cases and as the product of preoccupation with their special facts. Added difficulty in viewing the problem results from the reluctance of the Supreme Court to overrule any of its prior decisions and the fact that a fluctuating majority of the Court reach what apparently are conflicting decisions. Two basic viewpoints have been reflected throughout the entire history of the problem. These viewpoints have been designated the "permissive approach" and the "negative or traditional approach."

The two approaches applied to state taxation of interstate commerce stem from the early considerations of the appropriate sphere of relationships between the states and the Federal government and the application of the Commerce Clause in such classic cases as *McCullough v. Maryland,*[12] and running through *Gibbons v. Ogden,*[13] *Brown v. Maryland,*[14] *Cooley v. Board of Wardens,*[15] and the *Case of State Freight Tax.*[16] One of these views was that the Commerce Clause conferred upon the national government the exclusive power to regulate interstate commerce and that the possession of that power by Congress cut off the states from all legislative relation to interstate commerce, including state taxation. A conflicting view expressed in *Cooley v. Board of Wardens* and the *Case of the State Freight Tax* made a distinction between subjects of regulation and taxation which were national in character and requiring uniform treatment, and those subjects which were local in character, permitting or adapted to diversity of regulation. Although recognizing the exclusive power of

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11. Parke Davis & Co. v. Cook, 198 Ga. 457, 31 S. E. 2nd 728 (1945).

12. 4 Wheat. 316 (U. S. 1819).
13. 9 Wheat. 1 (U. S. 1824).
14. 12 Wheat. 419 (U. S. 1827).
15. 12 How. 299 (U. S. 1851).
16. 15 Wall. (82 U. S.) 232 (1872).

Congress over both national and local subjects in the event of positive action, there was developed the theory of concurrent power of the states as to those subjects local in nature and over which Congressional authority had not been expressly invoked.

The traditional view established by the Supreme Court decisions as to taxation was that interstate commerce may not, in the absence of authorization by Congress, be taxed by the states; and that the Commerce Clause creates an area of trade free of state taxation. Under this view the Court invalidated taxes imposed "directly" on any phase of interstate commerce, as well as all levies which "discriminate" against the commerce. Yet certain taxes which were levied upon discernible "local incidents" or "local activity" were sustained as being "indirect" or only incidental to interstate commerce.

The view that interstate commerce is immune from direct taxation by the states, along with its expressions of "direct" and "indirect" effects and burdens, for many years remained the alleged test by which the Court struck down a wide variety of state taxes. This conceptual and ritualistic mode of judicial logic gave very little consideration of the practical questions of economic burden of the tax. What condemned the tax was not any actual or probable effect of hampering commerce but simply the "direct" bearing of the tax on interstate commerce and that alone. Captions rather than consequences were the major concern of the court.

A new cycle in the history of the taxing power of the States under the Commerce Clause was opened in 1938 in the decision of *Western Livestock v. Bureau of Revenue*[17] when Justice Stone enunciated the "multiple" or "cumulative burdens" test. The cumulative burdens test represented the permissive view that a tax on interstate commerce is valid if the tax is of such a nature that the same segment of interstate commerce, which reflects only values attributable to the taxing state, cannot be taxed elsewhere and thus subject interstate commerce to the risk of a multiple tax burden not borne by local business. Thus the *Cooley* doctrine, with its divisions of subjects of interstate commerce into those demanding national and those admitting state regulation, was evidenced under this and successive decisions under Chief Justice Stone.

The permissible area of state taxation was broadened so as to sanction levies which were apportioned by methods which the court thought were reasonably designed to measure income, receipts, or property attributable to activities carried on in a state. Apportionment thus became one of the keys to validation of state taxes. The permissive theory was short-lived; and, with the passing of Justice Stone from the scene, by the decisions in *Freeman v. Hewitt*,[18] and *Spector Motor Service v. O'Connor*[19] the traditional doctrine was again re-established that direct taxes on interstate commerce are invalid and apportionment would not alleviate the sin.

Under the theory that the benefit for which the levy is made is beyond the power of the state to grant or deny, down through the years the Court has consistently struck down as invalid under the Commerce Clause the attempted levy of "privilege" or franchise taxes on foreign corporations doing an exclusively interstate business, even though there was an attempted apportionment to local benefits.

ANALYSIS OF THE RECENT DECISION

It is not entirely clear whether the majority of the current Court thinks the direct net income tax is not a "direct" levy upon interstate commerce, or whether the nondiscriminatory, fair apportionment, and nonprivilege designation is the saving feature of the levy sustained in the recent Georgia and Minnesota cases. Because of its heavy reliance upon the case of *U. S. Glue v. Town of Oak Creek*,[20] the Court apparently does not look at the apportioned, direct net income levy as being a "direct" interference with the free flow of commerce. In that case, in distinguishing between a tax measured by gross receipts and one measured by net income (as applied to a "domestic" corporation's gross receipts or net income including interstate commerce), the difference was said to afford:

> . . . a convenient and workable basis of distinction between a direct and immediate burden upon the business affected and a charge that is only indirect and incidental.[21]

Furthermore, the Court makes an approving statement that even with the inaction of Congress to regulate in the area of taxation, the requirement nevertheless is . . . that interstate commerce shall be free from any direct restrictions or impositions by the States. . . . Citing *Freeman v. Hewitt*[22] with approval, the Court further continues:

> . . . the States, under the Commerce Clause, are not allowed, "one single-tax-worth of direct interference with the free flow of commerce."

Freeman v. Hewitt, in which case the invalid tax was levied on gross receipts, stands at a high point in the return to the old "direct-indirect" burdens test for determining the constitutionality of a tax. The infirmity of the tax in that case, according to

17. 303 U. S. 250 (1938).

18. 329 U. S. 249 (1946).
19. Spector Motor Service, Inc. v. O'Connor, 340 U. S. 602 (1951).
20. 247 U. S. 321 (1918).
21. Ibid., at 328.
22. 329 U. S. 249, at 256 (1946).

Mr. Justice Frankfurter, was simply the "direct" bearing and "incidence" of the tax on interstate commerce and that alone.

As a further indication that the present Court continues to place great reliance upon labels, it refers with approval to the *Spector Motor* case, in which the invalid levy was a franchise tax on foreign business corporations for the "privilege" of doing business within the State, measured by net income; and at the same time the Court approves the direct levy on net income itself, citing the *West Publishing Company*[23] case as precedent for the instant holding, and saying:

> . . . that incidence of the tax affords a valid "constitutional channel" which the States have utilized to "make interstate commerce pay its way." In Spector the incidence was the privilege of doing business and that avenue of approach has long been unavailable under the Commerce Clause. As was said in Spector, "taxes may be imposed although their payment may come out of the funds derived from petitioner's interstate business, provided the taxes are so imposed that their burden will be reasonably related to the powers of the State and [are] non-discriminatory." 340 U. S. at 609. We find that the statutes here [the Georgia and Minnesota statutes] meet these tests.[24]

Thus the attitude of the present Court seems to be to leave the states to their own policies and to act only when they use the wrong "label" on the levy or when the tax impinges on commerce, as is reflected in the following quotation from the current decision:

> While the economic wisdom of state net income tax is one of State policy not for our decision, one of the "realities" raised by the parties is the possibility of a multiple burden resulting from exactions in question. The answer is that none is shown to exist here.[25]

Just how much activity may be done within a state solely in furtherance of interstate commerce without incurring the net income levy approved in the *Stockham* case is not capable of precise definement; however, it will undoubtedly require a substantial continuous scheme of business activity. In connection with the Due Process requisite to jurisdiction, the court says:

> It strains reality to say, in terms of our decisions, that each of the corporations here was not sufficiently involved in local events to forge "some definite link, some minimum connection sufficient to satisfy due process requirements" [citations omitted]. The record is without conflict that both corporations engage in substantial income-producing activity in the taxing States.[26]

Thus the Court seems to ground its holding on the basis that there were substantial local activities, though not constituting intrastate commerce. This statement of the Court is consistent with the "direct-indirect" approach and the sustaining of levies where they are grounded on sufficient local activity. A further indication of the extent of local activity necessary to sustain the tax is a specific reaffirmation by the Court of an unquestioned decision upon which, ironically, *Stockham* relied heavily in its argument against the validity of the instant tax. In this respect the Court said:

> . . . a State "cannot impose taxes upon persons passing through the state, or coming into it merely for a temporary purpose" such as itinerant drummers. Robbins v. Taxing District, 120 U.S. 489,493-494 (1887).[27]

Furthermore, Counsel for the State of Georgia, on oral argument before the Court, said Stockham's activities in Georgia were not a casual, transitory, spasmodic, travelling-drumming type of activity, but were such as to identify its business as local in the same sense as that of its competitors who sold comparable products from local inventories.[28]

The majority opinion reviews the field of state taxation and interstate commerce, setting forth numerous decisions which it continues to believe represent unquestioned law today, and then attempts to reconcile the current decision with prior cases, saying that it has been well-established since 1918 that a net income tax on revenues derived from interstate commerce does not offend constitutional limitations upon state interference with such commerce.[29] Citing cases to support this position, the court continues:

> These cases stand for the doctrine that the entire net income of a corporation, generated by interstate as well as intrastate activities, may be fairly apportioned among the states for tax purposes by formulas utilizing in-state aspects of interstate affairs.[30]

In reconciling the decision with *Spector Motor Service v. O'Connor*, the Court said:

> It is contended . . . that Spector . . . required a contrary result. But there it was repeatedly emphasized that the tax was imposed upon the franchise of a foreign corporation for the privilege of doing business within the State. . . . Thus it was invalid under a long line of precedents, some of which we have mentioned . . . . The taxes here, like that in West Publishing Co. v. McColgan, supra, are based only upon the net profits earned in the taxing State. That incidence of the tax affords a valid "constitutional channel" which the States have utilized to "make interstate commerce pay its way. . . . "[31]

What small comfort that may be had by the losers in the *Stockham* case is to be found in the dissenting opinions of Justices Whittaker, Frankfurter, and Stewart adhering to the traditional view

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23. West Publishing Co. v. McColgan, 340 U. S. 823 (1946).
24. 27 U. S. Law Week, p. 4145.
25. Ibid., p. 4144.
26. Ibid., p. 4145.
27. Ibid., p. 4143.
28. Ibid., p. 3122. (Oct. 21, 1958).
29. Ibid., p. 4143 (referring to U. S. Glue v. Town of Oak Creek, 274 U. S. 321 (1918).
30. Ibid., p. 4144.
31. Ibid., p. 4145.

that interstate commerce is immune from taxation laid directly upon that commerce and viewing the Georgia tax as one levied directly upon that commerce.

Mr. Justice Whittaker takes issue with the majority in their reading and interpretation of the cases relied upon as precedent for upholding the validity of the taxes in question.

> I think that the Commerce Clause . . . as consistently interpreted by this Court until today, precludes the States from laying taxes directly on, and thereby regulating, "exclusively interstate commerce. . . . "[32]

Also, he thinks the majority of the Court has mistaken the facts in its decision:

> The statutes, facts and findings are clear, sharp and undisputed . . . that the taxes in question were laid directly on that interstate commerce. . . . Yet, I believe, the Court . . . validly treats the cases as though intrastate commerce were to some extent involved.[33]

After taking one by one the cases cited by the majority as precedent for sustaining the majority position, Mr. Justice Frankfurter states:

> Neither the Court nor Counsel have cited, nor has our research disclosed a single opinion by this Court that has upheld a state tax laid on "exclusively interstate commerce" and we are confident none exists.[34]

Mr. Justice Frankfurter also says dissentingly:

> The Court sustains the taxing power of the States in these two cases essentially on the basis of precedents. For me, the result of today's decisions is to break new ground . . . among all the hundreds of cases . . . there is not a single decision adjudicating the precise situation now before us.[35]

Continuing, he says:

> Accordingly today's decision cannot rest on the basis of adjudicated precedent. This does not bar the making of new precedent. . . . If new ground is to be broken, the ground must be justified and not treated as though it is old ground.[36]

Taking a practical view of the result of the decision, Mr. Justice Frankfurter states his fear of the result of the decision:

> I do not think we should take this new step. My objection is the policy that underlies the Commerce Clause, namely, whatever disadvantages may accrue to the separate States from making of the United States a free trade territory are far outweighed by the advantages not only to the United States as a Nation, but to the component States. I am assuming, of course, that today's decision will stimulate, if indeed it does not compel, every State of the Union, which has not already done so, to devise a formula of apportionment to tax the income of enterprises carrying on exclusively interstate commerce. As a result, interstate commerce will be burdened not hypothetically but practically. . . .[37]

Mr. Justice Frankfurter continues to recognize that two practical burdens will result.[38] They are: (1) increased legal, accounting, and other costs to thousands of relatively small or moderate size corporations doing exclusively interstate business spread over several states; and (2) the extensive litigation that will result in challenge of formulas of apportionment as previously demonstrated in cases of railroads and express companies and multiplied many times when applied to infinitely larger numbers of businesses engaged in exclusively interstate commerce.

But Mr. Justice Frankfurter would not conclude that interstate business should not pay its share of maintaining state governments. He proposes that the answer to the question lies with Congress.

> At best this Court can only act negatively. . . . We cannot make a detailed inquiry into the incidence of diverse economic burdens in order to determine the extent to which such burdens conflict with the necessities of national economic life. . . . The problem calls for solution by devising a Congressional policy. . . . The solution to these problems ought not to rest on the self-serving determination of the States of what they are entitled to out of the Nation's resources.[39]

CONCLUSION

Thus, it seems Mr. Justice Frankfurter has well stated the case. No one can reasonably deny that interstate commerce ought to pay its way. No business should have an advantage merely because it operates across state boundaries and does exclusively interstate commerce; yet no business should be subjected to harassing levies at every crossroad merely because it operates across state boundaries. We have been waiting a long time, and no action has been forthcoming from Congress. In the meantime, the Court has served as arbiter of conflicting interests, and even there with conflicting opinions, as to the best interests of the national economy.

What of the future? No doubt the fears of Mr. Justice Frankfurter may be soon a reality. A number of states have already revised their statutes to accord with that of Georgia and Minnesota; more will follow with the "go" signal of the Court in the Georgia and Minnesota cases.

In the inaction of Congress, the only hope of industry is to work harder for state agreement upon an equitable and uniform apportionment formula. This problem of apportionment, like that of interpreting Commerce Clause requirements, is a monumental one of long standing and has filled volumes with comment and consideration for well over a quarter of a century, with little more progress toward agreement upon uniformity today than at its origin.[40]

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32. **Ibid.**, p. 4147.
33. **Ibid.**, p. 4147, 4148-49.
34. **Ibid.**, p. 4153.
35. **Ibid.**, p. 4154.
36. **Ibid.**, p. 4554.
37. **Ibid.**

38. See also article by Paul Studenski and Gerald J. Glasser, "New Threat in State Business Taxation," **Harvard Business Review**, November-December, 1958.
39. 27 U. S. Law Week, p. 4155.
40. See Wilkie, **A Basis for Taxing Corporate Net Income**, 36 Taxes. p. 807 (Nov. 1958) and **Uniform Division of Income for Tax Purposes**, 37 Taxes, p. 65 (Jan. 1959).

Determining Bank Advertising Appropriations

Theoretical Methods vs. Actual Methods

by

W. T. Tucker

In an article entitled "A Hardheaded Approach to the Advertising Appropriation," Atlanta Economic Review, *February 1959, Dr. Tucker established the desirability of an advertising appropriations method that relates advertising expenditures to profits. This month's article examines both current theoretical methods and current practice in banks in relation to that desideratum.*

During a recent study of bank advertising appropriations a serious discrepancy was discovered between the methods banks say they use to determine the amount spent on advertising and the factors that actually influence the size of the budget. While the research on which this report is based included an examination of the advertising appropriations and expenditures of several hundred banks during three years, the material in this article is based on careful depth interviews with officers of twenty-five banks in three states and less intensive conversations with numerous other bank officers about the resulting conclusions. While this might be considered by some as a small sample (the work was carried out for purposes not discussed in this paper), the uniformity of responses by bank advertising managers and other officers suggests quite clearly that current advertising appropriations theory is neither accurate as a description of practice nor useful in suggesting methods of operation for banks.

APPROPRIATIONS METHODS ACCORDING TO CURRENT THEORY

It is quite difficult to discover just how many distinct methods there are for the determination of the advertising appropriation. Albert Frey lists seven methods,[1] Sandage lists four,[2] Kleppner suggests four that differ from Sandage's list,[3] and Burton includes five methods.[4] These are just a few of the attempts to abbreviate or categorize the dozens of ways in which various advertisers go about their tasks.

The most succinct establishment of categories is that of Edwards and Howard, which lists all methods as "breakdown" or "build-up" methods.[5] Their analysis is currently one of the most widely accepted. Richard Webster found it satisfactory for the reanalysis of various lists of as many as 24 apparently different methods.[6]

The basic concept of this two-way division is that an appropriation can result from a detailed listing of advertising planned for the coming year, in which case the total appropriation is said to have been built-up; or, conversely, a total amount can be set and then be broken down into actual expenditures.

Virtually all recent writers regard some form of "build-up" approach as distinctly preferable to the breakdown methods. The reasons become apparent in an examination of particular methods in these categories.

Breakdown Methods

Some of the major breakdown methods are: arbitrary, competition-based, percentage-of-sales. The arbitrary method, which is not as uncommon as one might think, consists of simply setting the amount that is to be spent for advertising. Obviously, this way of establishing an advertising appropriation can have little relation to the ability of that advertising to return a profit. Of all appropriations methods, this is the most commonly and heartily damned.

The competition-based method suggests that the advertiser match his competitors dollar for dollar or on some proportionate basis if they are considerably larger or smaller than he. While there seems to be some rationale behind this concept, it is generally agreed to deliver a real managerial responsibility into the hands of the competition. It allows

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1. Albert Wesley Frey, **How Many Dollars For Advertising?** (New York: Ronald Press, 1955, p. 48.
2. Charles H. Sandage, **Advertising: Theory and Practice**, 4th ed. (Homewood, Illinois: Richard D. Irwin, Inc., 1953), pp. 611-614.
3. Otto Kleppner, **Advertising Procedure**, 4th ed. (New York: Prentice Hall, 1950), pp. 619-620.
4. Phillip Ward Burton, **Principles of Advertising** (New York: Prentice Hall, 1955), pp. 143-145.
5. C. M. Edwards and W. H. Howard, **Retail Advertising and Sales Promotion** (New York: Prentice-Hall, 1943), p. 110.
6. Richard Webster, **Setting Advertising Appropriation** (New York: Assoc. of National Advertisement, 1949, pp. 3-18.

the advertiser no opportunity to take advantage of his individual position; and, if widely used, it could lead to the persistence of serious errors.

The third method, that of taking a percentage of sales for advertising purposes, is the most favorably judged of the breakdown methods. It is usually suggested that estimated sales for the coming year form the best base for determining that year's advertising budget if the percentage method is used. The real hitch comes in determining what percentage to take of this net sales figure. According to Frey, some companies use the same percentage year after year, while others change their percentage with some frequency.[7] There seems to be some reason for preferring the unchanged percentage since it provides some uniformity. But the entire notion of a percentage method seems to neglect the profit maximization theory.

There are two principal weak points in the percentage method. The first of these weaknesses relates to the way in which the percentage is established. How does a company determine whether one per cent or twenty per cent of net sales is the proper amount to spend on advertising? There are only two ways in which this is commonly done. One way is to decide what *seems* most appropriate. A decision of this sort is largely arbitrary and infects the percentage method with the weaknesses of the arbitrary method. The other way to determine the percentage is to refer to the percentages used by other members of the industry. A decision based on this kind of information is largely competitive and infects the percentage method with the weaknesses of the competitive method for fixing advertising appropriations.

The second weakness of the percentage method lies in the fact that the same percentage is used, no matter how many units are sold. Economic analysis suggests that the advertising "pull" needed to sell a product will differ as the number of products increases. For instance, it might cost five cents a pack in advertising to sell 100,000 packs of cigarettes but only one-tenth of a cent a pack to sell 5,000,000,000 packs. It is probable that only rather extreme rates of change would alter the relative effectiveness of much advertising, but in other cases the advertising cost curve may be quite steep. Especially this would seem to be the case in situations in which additional advertising was expected to pull increased business out of an already saturated market.

All three of those methods—arbitrary, competitive, and per cent of sales—are suspect because they allow too much opportunity for the element of human bias and because they bear no demonstrable relationship to profits.

Many banks are said to use a percentage method that relates to total deposits since there is no such figure as gross or net sales. Theoretically, this has all the disadvantages of the prototype plus the disadvantage that total deposits are probably even less indicative of profits than are dollar sales figures.

Build-Up Methods

Build-up methods differ somewhat, but the general notion is that advertising is given a particular task to accomplish. This should be considered with relationship to other promotional methods, past experience, and other factors. The advertising manager then determines what media he should use and with what frequency. From the rate cards he calculates how much the time and space will cost. From his knowledge of costs, he adds estimated production, art, and other costs and presents the amount this total comes to as his desired appropriation.

Perhaps it is an oversimplification to present these methods so briefly. Some are worked out in considerable detail and list innumerable factors that are of influence. Terms used for various approaches to such methods include "task-oriented," "research-objective," and "marketing-program."

All of these methods seem to have a common shortcoming. They have substituted arbitrary decisions at the lowest level for arbitrary decisions at the highest. In using these approaches someone must determine how large the advertisements in newspapers must be and how often they must be run to accomplish the objective. It seems unlikely that an advertising manager is actually able to determine whether advertisements should be three columns by ten inches or one column by ten inches to accomplish a specific result. It seems equally dubious that he can determine whether the advertisements should be run two times a week or four times a week. At least it would seem that in making these decisions he would have a strong tendency to add a safety factor, revising upwards what are guesses at best.

Whatever the reasoning behind this method, its primary effect is to put the determination of the advertising budget more clearly in the hands of the advertising manager than does any other approach. There is, perhaps, considerable wisdom in this since the advertising manager would be presumed to know more about the nature of advertising than would other department heads or administrative officers. Unfortunately, the one area in which there is little evidence of competence on the part of advertising managers is in their ability to predict what an individual advertisement or campaign will actually produce. They might be compared to skilled fishermen who regularly catch more than their fellows, but who are hardly more skilled than others at predicting how many pounds of what kinds of fish they will catch.

7. Albert Wesley Frey, op. cit., pp. 65 ff.

Clearly enough, none of the methods suggested can logically be said to maximize profits since none is related to profits in any clear or direct fashion. Nor is it possible even on the basis of internal evidence to tell which of these many methods comes closest to the desired ideal. There are, undoubtedly, compelling reasons in particular circumstances why one, rather than another, of the methods may be most suitable. For instance, one would hardly recommend any of the build-up methods for any but a relatively experienced advertising manager. Nor would one recommend using a percentage of estimated sales when no reasonably accurate estimate was possible—as is often the case with a new product. Nor could one think in terms of a competitive-based appropriation when there was considerable diversity in the nature of competitive organizations and their advertising policies.

At this point it would seem that none of the methods common to the literature has a particularly strong reason for being thought preferable. However, there is considerable variance between theory and practice in many areas. For the purposes of this study—which concerns the theory and practice of making advertising budgets for banks—it seems necessary to ask the question, "Is there any method currently used by banks that suggests itself as particularly appropriate because of either its logic or its results?"

DIFFERENCES BETWEEN THEORY AND PRACTICE

The principal theoretical methods used by banks to establish appropriations methods are the same as the major four methods used by advertisers in general. They are:

- Arbitrary—a sum established according to the policy maker's estimate of what would be proper, not supported by evidence or data
- Percentage of deposits—from $300 to $1,000 per million of deposits, depending on the size of the bank
- Competitive parity—an approximation of what competitors do
- Research-objective or task-oriented—appropriation based on a developed program which is, in turn, based on a definite objective.

It is not hard to find banks that reputedly use each of the above methods. Some banks contend that they use a combination of these in setting advertising appropriations. The most common method among medium-to-large banks seems to be the research-objective or task-oriented budget—at least most banks so refer to their own method of establishing appropriations. *Yet, to the trained observer there is almost no difference whatsoever in all these methods.* Perhaps the situation is that, since no one of the methods is completely trusted by bank advertisers, no one of the methods is *actually* followed in relatively pure form. The result is a rather uniform climate of decision for all banks, this climate being determined by four factors: the president, other bankers, the profits, and the past.

The phraseology of these factors is intentionally unkind. It is not intended to suggest that bank advertisers are doing less well than other advertisers at establishing appropriations—much advertising is based on hunch or habit. Particularly, it does not suggest that bank advertisers are doing an unsatisfactory job of using the appropriations once they are established. In fact, the creative imagination and hard work that go into bank advertising are staggering to an outsider, and the quality of the finished advertisement is markedly higher than that of even a few years ago. Yet the fact remains that appropriations are established psychologically rather than logically.

Let's examine each of the four factors.

The President. The president of the smaller bank (a group of officers and directors in the large bank) establishes what might be called a bank character or personality. Perhaps it is an extension of his own personality or an extension of the personality he would like to have—an analysis of the psychological roots is unimportant here. In any case, this personality pervades the bank's operations, and in no way does it affect bank operations more than in the bank's relations to the public. Advertising is seen as major in those relations. The banker who views his bank as a dignified, senior citizen of the community simply cannot square this picture with heavy advertising expenditures or hard-hitting copy on debt consolidation. His advertising expenditures are probably low.

But it is only a slight shift from this personality to that of the community leader whose advertising must be the most extensive in town. It can be almost a matter of pride to run newspaper ads that are never less than a quarter of a page in size, sponsor newscasts rather than use spot commercials, and sponsor a "good" half-hour program on TV.

Then there is the go-getter—modern, sharp, and hard—who insists that institutional advertising is a waste. Every ad must feature clean, hard-sell copy, and there must be many of them. He loads his advertising with radio "spots" and puts two "fliers" in every statement. It adds up to a lot of money.

It is useless to go on through the various types and subtypes. But the tendency is clear. The personality of the president is the biggest single factor in how much the bank spends for advertising.

Other Bankers. The personality of a bank is meaningless except as it differs from banks around it. A senior citizen located a block from a go-getter can look like an old fogy—even in his own eyes. He will begin to conform to his competition and raise his budget. But he will insist on maintaining the *relative* personality of his bank. The result is that the competition clearly influences the appropriation. This influence has two aspects. One of these relates to the desire to get one's share of the business. The other relates to the fact that perception of one's own personality depends on the relative

personalities of others.

The Profits. Last year's profit and loss statement clearly influences the amount spent for advertising. Perhaps the clearest indication of this is the fact that the larger bank (and bank size is closely related to profits) usually spends more on advertising than does the smaller bank. Also, bank advertising managers express belief that an extremely profitable year is the best time to ask for a healthy increase in the advertising budget. Yet profit is clearly not a consistently controlling factor in bank advertising appropriations, except that it sets limits beyond which no bank except the very new one can safely venture. Below these limits, the portion of potential profit that is used for advertising varies greatly.

The Past. Every appropriation is relative to last year's appropriation. The question of how much for advertising is actually: How much more or less than last year? This can be seen particularly in the continual references bank advertising managers make to "10 per cent increases" or "$15,000 decreases."

TYPICAL CONVERSATIONS WITH BANK ADVERTISING MANAGERS

The above analysis is so much at variance with the theoretical discussions of the literature that the question immediately arises: Is this a fair analysis or merely some imaginary concoctions that sound appealing?

Let's ask a couple of bank advertising managers.

Manager A: "We use the research objective method. We start out by deciding what we want to accomplish during the year. Then I figure out the size of ads and how often we ought to run them, how many radio commercials, that kind of thing. Then we figure out what it will cost, adding in production and all of that."

Question: "How much did that come to last year?"

A: "Well, our budget was a little high last year. Up about 15 per cent from the year before. We expect to trim it back a little this year."

Q: "And how much was it?"

A: (long pause) "About $xxxx.xx."

Q: "And what would you say that your major objective was last year?"

A: "Well, we wanted to increase business, of course. Savings. That was one of our big objectives."

Q: "About how many new savings accounts did you get?"

A: "I could find out by calling the cashier. It would just take a minute, But you know, figures like that don't really tell anything. A lot of people come in because the bank is convenient. You can't relate new accounts to advertising."

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Manager B: "For one thing, we always look at those FPRA statistics. We want to see what other banks our size are doing. I figure out a per cent of deposits from that."

Question: "And what per cent do you use?"

A: "I think it's about a thousand dollars on the million. Something like that."

Q: "I thought the banks in your size group averaged about five hundred on the million."

A: "Well, of course we take into consideration the fact that this is a mighty aggressive town for bank advertising. Our president is a little different from most presidents, you know. He says if you are going to get them to come all the way up here from the south end of town, you've got to tell them what you're going to do for them. We want to make sure that every last person in town knows where we are and what services we offer. Let me show you some tear sheets on some of the ads we run."

(The appropriation turns out to be about $1,500 on the million, or three times that of the average bank of the same size.)

These bank advertising men are not unusual. Every personal interview carried out in this study has shown the personality of the president and his bank to be a major concern of the advertising manager. No bank with a so-called research-objective or task-oriented appropriations method has given any evidence that it had specific objectives or that it checked results in any but the most offhand manner. And every advertiser was thoroughly aware of and concerned by the advertising methods and amount of advertising of his competitors.

There is no intention of poking more than a little fun at either the bank advertising manager or the bank president. The worst mistake a researcher can make is to belittle the hunches and feelings of experienced people who run successful enterprises. Too many management consultants have found that the executive who plays by ear, and who has a good one, can come up with more right answers than the so-called expert.

Nevertheless, it appears that the various methods which theoretically fail to measure up to the profit maximization requirement are, if anything, actually weaker in practice. None satisfactorily prevents the operation of particular biases or side influences which seem to have indirect relationship at best with the expressed objectives of advertising. None seems clearly related to profit maximization. It should be pointed out that both rapidly growing and relatively static banks say they use identical methods for determining the amount of money to be spent on advertising.

More important is the recognition that all of these methods seem to dissolve into one multifactor method on close examination, and that it does not relate satisfactorily to the avowed purposes of advertising.

CONCLUSIONS

One is forced to the conclusion that psychological influences not mentioned in discussions of appropriations methods are major influences in determining the amount of advertising done by banks. While this could be a peculiarity of banks alone, it seems likely that advertising appropriations in other businesses are similarly influenced—although not necessarily by the same group of factors or in the same degree. If this is so, current advertising appropriations theory needs considerable revision with particular attention to these unspoken influences.

From obscure beginnings and small-scale local entrepreneurship
An industry has dynamic growth and tremendous impact on the economy

Georgia's Tufted Textile Industry

by
Ray G. Jones, Jr.
and
Claude A. Campbell

HISTORY OF THE INDUSTRY

Small-Scale Beginnings

As early as 1650 the New England settlers made tufted bedspreads. These settlers found that holes in used bedspreads could be mended and made attractive by cutting and fluffing the yarn used in the mending process. Finally the designs were made all over the bedspread. The art became fairly well-known and reached its highest development on the plantations in the South between 1725 and 1850.

In 1895, Miss Catherine Evans (now Mrs. W. L. Whitener) of Dalton completed the first modern tufted bedspread.[1] She made the pattern and design from an old tufted bedspread—the origin of which is not known—that had been in the family for several generations. Being familiar with the art of making quilts, she studied the old heirloom in detail and succeeded in making one for herself. Mrs. Whitener completed a second tufted bedspread for herself in 1896 and made a third one in 1900 as a wedding gift for her brother. She made and sold her fourth tufted bedspread to this brother's sister-in-law for \$2.50, \$1.25 of which was for the cost of the cloth and thread and \$1.25 for her work.[2] Thus the tufted textile industry has developed from a very humble beginning.

Some time later, other women in Dalton observed this busy young woman and started making tufted bedspreads for sale to get spending money. This modest sideline developed very rapidly into a rather profitable venture. The male population began to realize that there was "big money" in this revived product for the market. Many of the men in this area quit their jobs to devote full time to making and selling the tufted bedspreads.

In 1941, Mr. R. E. Hamilton, past president of the Tufted Textile Manufacturers Association, described the rapid development of the industry:

> Men began moving into the industry in 1922. A freight agent quit his job, started handling bedspreads in a spare room, and now has expanded to a million-dollar-a-year business. Similarly, a telegraph operator switched to spreads, and now flies his plane to and from his plants scattered over four counties. A dentist watched his wife's business eclipse his practice, closed his office, and built up a factory with 500 employees.[3]

Handicraft Boom

From the early 1920's to the early 1930's the hand-tufted products enjoyed great popularity. It soon became evident that the home industry, with headquarters established in spare rooms and storage sheds, had tremendous money-making possibilities. The story of the new lucrative business soon spread. Sales agents and others recognized the opportunity offered in the mountainous countryside of north Georgia. Eastern capital began to trickle into the new businesses. As time passed more capital was invested in the industry. The peak of the handicraft boom occurred about 1930.

Many of the families which experienced the severe effects of the depression during the early 1930's turned to tufting for their livelihood. As many as ten thousand men, women, and children in sections of the states of Georgia, Tennessee, Alabama, and South Carolina went into the industry during this period. Even with the increased number of workers the demand began to outgrow the supply of these early producers.

During that time the Federal government's introduction of the minimum wage and hour laws un-

1. "History and Progress of the Tufted Industry," **Tufted Textile Manufacturers Association Directory**, 1953, p. 24.
2. **The Dalton Citizen**, March 18, 1954, p. 20.
3. "Bedspread Bonanza," **Readers Digest**, Vol. XXXVIII, No. 228 (April 1941), p. 42.

der the initial New Deal legislation brought other problems to add to the existing ones of a rapidly expanding industry. Manufacturers could not afford to pay the handicraft workers the minimum of 32½ cents per hour.[4] Therefore the new wage scale was practically an insurmountable increase to the industry over the old prevailing rate of only five to ten cents per hour. Apparently the best way to reduce the costs of production was to develop machinery to make the products.

Introduction of Machinery

A few crude machines were developed to do the work in the early 1930's. This was the start that was needed. From the knowledge gained by the results of the first machines, a better idea as to what was needed was formed. Mr. Glenn Looper of Dalton was given credit for the invention of the original chenille machine.[5]

By 1935 both needle punch and tufting machines had been introduced. Of course, plants had to be erected for the mass-produced machine-made products, but the main problem of making machines to do the work had been overcome. As the early machines were improved, multi-needle machines eventually were made with as many as 24 needles. Once initiated, the machines developed rapidly. Today, thanks to more research, there are powered looms which can turn out a complete bedspread or a room-size rug in a matter of minutes. Mechanization therefore apparently saved the tufted textile industry from an almost certain doom.[6]

During the decade of the 1930's, the industry in the Dalton area increased about fifteen fold. By 1941, on the eve of World War II, 76 tufted factories or plants were operating within a 50-mile radius of Dalton and were producing about 80 per cent of the nation's tufted bedspreads. Although on the whole the firms were small, they turned out products which sold at retail for $25,000,000 in 1941.

World War II Epoch

The tufted textile industry was declared "nonessential" during World War II, but the majority of the factories were able to convert to war goods with relative ease. About 72 plants changed their operations to produce such emergency items as parachutes, pup tents, netting, fabric covering for airplane wings, laundry bags, and uniforms for the GI's.[7]

4. "Bedspread Bonanza," **op. cit.**, p. 43.
5. "Chenille Business Is One of Georgia's Newest and Best Sources of Revenue," **Georgia Progress Bulletin**, Vol. III, No. 4 (October 1, 1946), unpaged.
6. While the machine has taken over the mass-production market, it has not eliminated the hand-tufting business. To many people an article elegantly made by hand is considered a work of art, and will always have a certain appeal. Such an article commands a much higher price than do similar products mass-produced by machines. Some small independent operators who still make fine quality hand-tufted products continue to prosper.
7. "The Tufted Story," **Tufted Textile Manufacturers Association Directory**, 1950, p. 32.

The Postwar Period

During the years 1945 and 1946 there was great instability and considerable confusion for the tufted textile industry. Since production had practically ceased during the war, the demand for tufted products was very great, as was the case for almost all items consumed by the American public. The plants operated night and day in an attempt to meet this pent-up demand, and many new people tried to enter the tufting business.

Many firms were organized during this period. Since some of these concerns began operations with insufficient technical knowledge and capital, they were forced out of business after operating for only a very brief period. Much of the merchandise turned out by these new plants was inferior, due partly to the shortage of labor, scarcity of materials, and lack of knowledge of the tufted industry.

The tufted textile industry employed 18,056 persons in 1946. This was an increase of 56.9 per cent over 1941.[8] Sales increased from $9,000,000 in 1929 to $23,000,000 in 1940 and to $121,000,000 in 1946. There were 100 plants before World War II as compared with approximately 300 firms in the industry in 1946.[9] But almost half the production at this point came from machines set up in the homes.[10] The industry was using one out of every forty bales of the entire cotton crop of the United States in the immediate postwar period;[11] however, it was beginning to face keen competition and close pricing conditions because of its own prosperity. During the winter of 1946-1947, when there was an exceptional lull in selling, the inventories of both plants and stores increased. This lull forced many of the new plants to sell their goods at prices below production costs, which resulted in their failure.

Market Recession and Recovery

By the end of 1947, the firms which came through the uncertainty of the previous seasonal lull were showing strength and stability again. Only firms with efficient operations—good production and selling techniques—and high quality products had been able to survive. Periods of "weeding out" like this one have occurred in many industries in their early years of dynamic growth (e.g., autos, television, and air conditioning).

Three immediate problems facing the industry at the end of 1947 were: (1) scarcity of materials; (2) inadequate supply of skilled labor; and (3)

8. **The Dalton News**, December 30, 1947, p. 6.
9. **The Atlanta Constitution**, May 23, 1949, p. 10.
10. "Tufted Carpet: How Much More Can It Grow?" **Business Week**, June 16, 1956, p. 56.
11. W. F. St. John, "Georgia Bedspreads Cover The Country," **The Atlanta Journal and Constitution** (Magazine Section), September 8, 1946, p. 17.

low prices, which were cutting into profits.[12] Of course there was nothing much to be done about materials except to wait for the government to ease restrictions. Each plant soon overcame the shortage of skilled labor by its own program of instruction.

As for the low price problem, it was an enduring one, and one which is expected for an industry characterized by a large number of small producers. When total market demand falls off, it is customary for producers in this type of industry structure to sell their output at "cutthroat" prices, if need be, in the endeavor to maintain their production and thereby to spread their overhead costs over a large output. As with many other industries faced with the cutthroat price problem, the trade association for tufted products endeavored to cope with the situation by appealing for restraint on the part of producers. Success by this route is almost never possible, however. The Tufted Textile Manufacturers Association needed the cooperation of all plants, both member and nonmember, which it did not get. In subsequent years, however, the association has succeeded in bringing about a better understanding and closer working harmony among producers, but there is yet no joint promotional program aimed at consumers for the purpose of broadening total market demand.

The industry was able to recover gradually from the gloomy market conditions of 1947. Some new products were introduced which found a wide market acceptance, old products were revived by means of new designs, the general quality level of products was improved, and new machines were introduced which cut cost of production. By 1955 the annual sales volume of the industry had reached about $279 million (as compared with $50 million in 1945), with by far the greatest volume being in the carpeting segment.

Efforts Toward Stability

In 1945 the Tufted Textile Manufacturers Association was organized by established and legitimate leaders in the industry, and it began to exert a stabilizing influence. Although the trade association could not make the members do anything which they did not wish to do, it helped to bring order and unity out of the confusion that existed at the time.

A bedspread association had been formed around 1933 to handle problems of the infant industry, but no legal steps were taken to give the organization any power. However, it was the forerunner of the Tufted Textile Manufacturers Association, which promotes the inside as well as the outside activities of the industry. The present association is not a directive organization, but it is a source of information about everything—good or bad—that affects the industry. The association began publishing a directory in 1950 for the first time to equip all phases of the tufted industry with lists of manufacturers, suppliers, and statistics. In addition, the directory aids in acquainting the industry with new ideas and techniques.

The three main segments of the industry are bound together by the Tufted Textile Manufacturers Association. They are: (1) floor covering; (2) bedspreads, draperies, and vanity sets; and (3) robes. About eighty per cent of the production is with the association at present, and the member firms cooperate fairly well.

Carpet Innovations

Record of Dynamic Growth

Innovations in the tufted carpet industry developed very rapidly. Small scatter rugs with tufting on both sides, enabling the consumer to get twice the wear, were introduced in 1949. To prevent slippage, hold the tufts firmly in place, and add body to the rug, both small rug and large carpet manufacturers began applying a rubberized or latex backing to their products around 1948 and 1949, which further enhanced the tufted carpet in the eyes of the consumer. The latter process grew in popularity and usefulness until almost all carpeting is now manufactured with the latex backing.

The carpeting segment currently accounts for two-thirds of the tufted textile industry's sales (measured in dollar volume). In 1952 the industry produced 50 million square yards of floor coverings compared to 20 million square yards in 1949 and a little over a million square yards in 1939.[13] The sales volume of tufted carpeting grew from about $50 million in 1949 to $219 million in 1955.[14] In 1955, tufted carpets and rugs accounted for 43.45 per cent of the domestic soft floor-covering production, compared to 4.67 per cent in 1951.[15]

Looms have been developed which will turn out tufted carpet many times faster than will those utilized in other branches of the carpet industry. The resultant savings in production cost have made possible lower prices per square yard to consumers and, in turn, have generated a marked expansion in sales volume.

Shift to Synthetics

More and more cotton has been going into tufted textile products (Table 1). However, the cotton carpet, which retail at around $7 to $9 per square yard, is decreasing percentage-wise.[16] The reasons

12. "Georgia's Tufted-Chenille Industry Shows Strength and Stability in 1947," **Georgia Progress Bulletin**, Vol. IX, No. 7 (January 1948), unpaged.

13. "The New 'Carpet Giant,'" **Tufted Textile Manufacturers Association Directory**, 1953, p. 69 (reprinted from **Retailing Daily**).

14. U. S. Bureau of the Census, **Facts for Industry**, Series M15S-125 (Washington, April 27, 1956).

15. George L. Storm, "Increased Sales of Tufted Lines," **Tufted Textile Manufacturers Association Directory**, 1957, p. 78.

16. Charlie W. Russell, "Cotton Carpets and Rugs," **Tufted Textile Maufacturers Association Directory**, 1957, p. 48.

for the decline are primarily lack of resiliency, fiber length, soil resistance, durability, and color fastness. Therefore, the synthetics have entered the picture, bringing only some technical problems. In 1951, only two per cent of the yarn used in tufted carpets was synthetic, compared to an estimated seventy-five per cent in 1955.[17] Rayon and nylon, alone and also blended with other fibers, have become widely used in carpets.

Table 1
Cotton Fiber Consumption in Tufted Rugs and Carpets

Years	Bales
1951	114,660
1952	137,770
1953	237,700
1954	246,700

Source: W. T. Wynn, "Cotton," **Tufted Textile Manufacturers Association Directory**, 1956, p. 46.

Through research, cotton fibers have been generated which are longer and stronger, and this has helped cotton to hold its position relative to synthetics. An important remaining task is to develop a cotton fiber which is resilient.

ECONOMIC PROBLEMS OF THE INDUSTRY

Seasonal Variations

One of the problems facing the tufted industry is its seasonal nature, the demand for tufted products coinciding with sales of home furnishings. In an attempt to insure a more stable production and to eliminate seasonal lulls, the industry has undertaken the production of additional items during the different seasons. Among these are: robes (other than tufted), beachwear, footwear, draperies, dolls, dresser sets, playsuits, tufted carpeting for automobiles, and upholstery fabrics.

Transportation Problems

Time and Rates

The time required for transporting tufted textile products has always been a problem, and early movements of the tufted products often involved long layovers. However, through the efforts of the trade association and cooperation from the railroads and motor carriers, in recent years the plants have been getting their shipments through in about half the time it had taken previously—a great improvement, but still far from satisfactory. To help solve this problem, air cargo freight has come to be used in the delivery of merchandise which has to be rushed to markets throughout the country.

High shipping rates have also been a burden, and if the rates continue to increase, many producers may be forced ultimately to enter the field of private transportation, as have manufacturers and associations of other industries.

17. "Tufted Carpet: How Much More Can It Grow?" **Business Week**, June 16, 1956, p. 56.

Flameproofing

The need for flameproofing products was at one time another problem of transportation. In 1953 the Flammable Fabrics Act was passed by Congress, prohibiting interstate shipments of highly flammable fabrics and articles of wearing apparel. The bill affected only one segment of the tufted industry. Through research the industry met the challenge. Indeed, in 1955 a method was introduced which, by altering their chemical composition, made the fabrics permanently resistant to flames.

Packing and Storage

For packing and storing of rugs and carpets, laminated textile covers were introduced in 1955. These covers are flexible, highly punctureproof, waterproof, and of much lighter weight than are cardboard cartons. They fit snugly around the roll of carpet, preventing the roll from expanding or uncoiling, and preventing crushing, as well as stopping damage to the tuft and pile after the carpet is packed. These covers have brought a natural incentive to carpet producers to pack tighter—a saving of money and time.

Laminated covers have also partially solved the problem of storage of rugs and carpets. One carpet manufacturer found that 1,000,000 yards of goods packed in laminated covers require only as much space as 300,000 yards of goods in cartons.[18]

However, the laminated covers are used only for rugs and carpets, and they have not solved the problem of packing spreads and robes. These items are packed individually in some instances so that they will be ready for gift promotion when they reach the retail outlets. Cartons are not only heavier than the covers, but they cannot be packed as tightly. A method that produces as good results as do laminated covers for carpets would greatly benefit the robe and spread segments of the industry.

Quality Controls and Standards

A rapidly expanding industry finds itself confronted with many problems in all phases of manufacture, especially those dealing with quality control. Some carpet producers have not maintained very high quality programs and perhaps have not realized the seriousness of the situation. Such a shortsighted practice could be harmful to the entire tufted carpeting segment.

Since the tufted textile industry is subject to mass-production principles, it has been having trouble meeting the criteria for successful mass production—that each unit produced be exactly like the previous unit. The manufacturers have not always been able to match colors to standard. But through adequate color and quality controls, many producers have been able to solve this problem. Research and a better understanding of the problem

18. Don L. Lorimier, "New Packaging Methods," **Tufted Textile Manufacturers Association Directory**, 1956, p. 134.

tend to instill confidence in the buyer because of the production of a better and more uniform product.

Tufted bedspreads are produced in greater numbers than any other type, 14,100,000 units being produced and sold in the United States in 1955.[19] To help solve the shedding or lint problem, synthetic fibers are put into spreads. To prevent duplications and to attempt to eliminate inferior products, manufacturers have been requested to register brand names with the Tufted Textile Manufacturers Association. By 1955 this association was attempting to get standards on supersize and kingsize bedspreads. The trade association was also trying to establish standards for yarn and grey goods since such a great variety of materials were used. This could be accomplished by setting up a service to members for checking the quality and uniformity of these materials that comprise the finished product. However, a research laboratory was needed, and the industry had not progressed to that point. So for the time being the industry had to depend upon its past experience and on the suppliers of the goods.

19. "Standards for Tufted Bedspreads," **Tufted Textile Manufacturers Association Directory**, 1957, p. 110.

IMPACT ON THE DALTON AREA

Dalton, the county seat of Whitfield County, Georgia, is in an area which formerly comprised one of the South's poorest farming sections. During the twentieth century, however, Dalton has become the principal production center of the tufted textile industry. The rapid expansion of this business brought a much better balance between agriculture and industry in this trade area, and the economy of the area experienced phenomenal growth and prosperity largely because of tufted textiles.

With the advent of minimum hour laws and machinery, many of the tufted workers moved to the city to work in the newly constructed plants. The

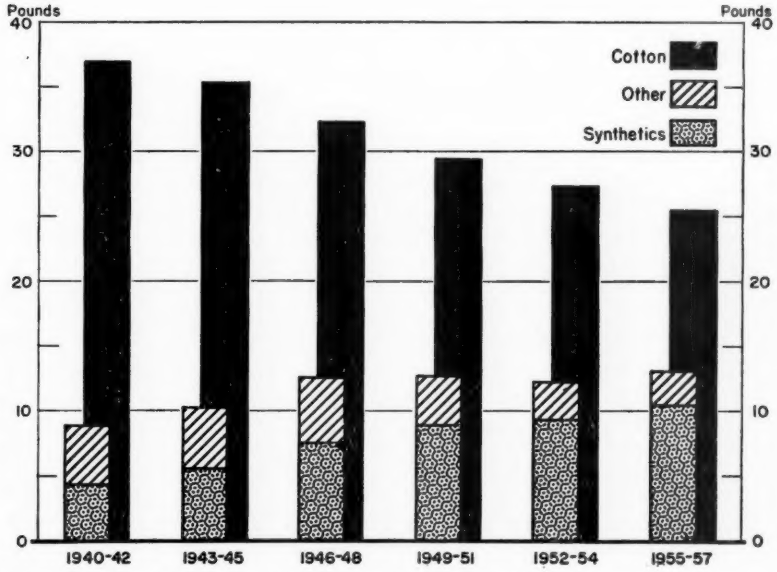
COTTON CONSUMPTION IN THE UNITED STATES

The research directed toward greater use of cotton in the tufted textile industry is significant. The cotton economy has a real need, not only for improved production techniques at lower unit costs but for quality improvement, to meet the competition of synthetics and other materials.

The U. S. Department of Agriculture reports that from 1947-1957 for the United States as a whole there was an average annual decline in cotton acreage of 4.2 per cent. However, the decreased acreage was largely offset by improved production techniques. (The decline in production was only 0.4 per cent.) Exports from this country have also been on the decline, as cotton production in foreign countries has increased, with prices below those of U. S. cotton.

As will be seen from the accompanying chart, the per capita synthetic fiber consumption in the U. S. more than doubled from the period 1940-42 to 1955-57, while cotton fiber per capita consumption has been steadily declining.

Per Capita
Fiber Consumption
United States
1940-57



Source: Courtesy of Federal Reserve Bank of Atlanta

population of Dalton doubled between the years of 1930 and 1950. At the same time, social changes were taking place as the area was transformed from a strictly rural to a more urbanized community.

Table 2 shows a comparison of the expansion of the total sales volume of the tufted textile industry with the growth of Dalton's population and bank deposits for selected years.

Table 2
Total Sales Volume of Tufted Textile Industry Compared With Population and Bank Deposits, Dalton, Ga.

Year	Population	Total Bank Deposits[a]	Total Sales Volume
1900	4,315	$ 65,292.49	$ 2.50
1910	5,324	298,984.55	not available
1920	5,222	1,279,838.51	not available
1930	8,160	2,637,515.76	9,000,000.00
1940	10,448	5,318,494.64	23,000,000.00
1950	15,968	14,212,579.23	100,000,000.00
1955	17,900	19,989,139.65	278,000,000.00

[a]The data for the years 1900-1920 do not include the deposits of the Hardwick Bank & Trust Company since it operated as a private bank prior to 1922.

Source: Figures compiled from Federal Census Data, Bank Statements and Georgia Department of Banking, and the Tufted Textile Manufacturers Association.

Expansion from the Dalton Area

Shortly after the introduction of machinery, Dalton became known as "The Bedspread Center of the World." In 1946, there were 21 tufted plants in Dalton, 54 within a fifty-mile radius.[20] In 1952, there were 100 plants in a sixty-mile radius of Dalton.[21] In 1955, there were approximately 200 plants in the nation, with approximately 70 per cent in Georgia and 85 per cent within 125 miles of Dalton. The plants in the state of Georgia produced 70 per cent of all tufted floor coverings, 80 per cent of all tufted bedspreads, and 98 per cent of the nation's output of tufted robes.[22] Dalton became "The Tufted Textile Capital of the World."[23]

EMPLOYMENT TRENDS IN THE INDUSTRY

At the height of the handicraft boom, there were around 10,000 people employed by the entire tufted textile industry, which was located then in parts of four states. Being highly mechanized since the end of the war years, the industry provided employment for approximately 15,000 in 1953.[24] In Whitfield County, 8,809 persons were employed during the month of October, 1953, which was one of the peak months up to that time.[25] During 1955, an average of 5,929 persons were employed in Dalton, while an average of 9,663 persons were employed in the state of Georgia.[26]

Employment figures show that the number of jobs has not kept pace with increases in sales volume made by the industry. This fact alone is indicative of the tremendous technological advancements made by the industry.

Wages in the industry are below those of the other branches of textiles. The work is of a seasonal nature, more women than men are employed, and the labor turnover is fairly high. At one time the industry employed about 90 per cent women. Although there are no statistics available on the percentage of women employed, it is estimated at 75 per cent today. High labor turnover may also be an indication of labor instability and dissatisfaction. The percentage of women is slowly decreasing because of the tufted carpeting segment of the industry, which has surpassed spreads and robes in production and sales in the past few years and is more stable. More mechanics are needed for the specialized machinery and more brawn is needed to handle the heavy carpeting. Therefore the labor turnover problem is gradually diminishing, especially in the carpeting segment.

Since the tufted industry employs about 75 per cent women, it leaves men available for other industries. It has also created employment opportunities for men. In addition to the yarn mills, there are about a dozen large firms established to wash the tufted products, machine plants to build and repair machinery, and a dye factory to furnish materials. One of the latest plants in Dalton is one which will manufacture latex mainly to be used by the rug and mat producers.

Building has been going on constantly in the city since the war. Many men are engaged in construction work, which is stimulated by the expansion of the tufted industry.

FUTURE OF THE INDUSTRY

The chief problems confronting the industry at present are the seasonal lulls affecting production, finding a practical solution for quality controls, and means by which transportation costs can be lowered. Partial solutions have been found to these problems, and study and research will continue.

The outlook for the tufted textile industry is most promising. Numerous factors will contribute to the expected continuous increase in demand for tufted products. The products themselves are undergoing

20. "Chenille Business Is One of Georgia's Newest and Best Sources of Revenue," **Georgia Progress Bulletin**, Vol. III, No. 4 (October 1, 1946), unpaged.
21. "Tufted Industry," **Newsletter**, Vol. IV, No. 23 (August 10, 1953), p. 6.
22. "Tufted Textiles," **Textile Industries**, Vol. CXIX (June 1955), p. 104.
23. Chamber of Commerce **Bulletin**, Dalton, Georgia, n. d.
Although the center of the tufted textile industry is Dalton, it is by no means restricted to that community. Plants now operate in twenty-five states, from New York to California. Besides the United States, the industry has spread to a few foreign countries—Europe, Mexico, Canada, Africa, Australia, New Zealand, and India. Not only is tufted textile production growing in these countries, but the manufacturing of tufting machinery is growing as well. R. E. Hamilton. "Tufted Textile Industry Grows Up," **Tufted Textile Manufacturers Association Directory**, 1955, p. 21.
24. "Tufted Industry." **op. cit.**, p. 8.
25. "Report for Whitfield County," **Georgia Department of Labor Quarterly**, 4th quarter, 1953.
26. Letter from O. H. Stephenson, Chief, Reports and Analysis, Georgia Department of Labor, July 2, 1958.

new styling, textures, colors, designs, and cleaning properties. More efficient machinery and production techniques will lead to lower unit production costs and higher quality.

Higher standards of living, new homes, and remodeled old ones mean rising demand for household furnishings such as carpeting, draperies, and bedspreads. With the growing popularity of wall-to-wall carpeting, a tremendous increase in this segment of the industry is forecast. Mr. Charlie W. Russell, Utilization Research Division, National Cotton Council of America, has summarized the present and future market for carpets and rugs:

By the end of 1954, production of tufted carpets and rugs was almost equal to production of wool rugs, which at one time had accounted for 90 per cent of the total market.

Total sales of rugs and carpetings, however, have not kept pace with increases in potential demand during the past four or five years. There is a total market potential of 1,800,000,000 square yards of room-size rugs and wall-to-wall carpeting in the residential soft floor covering market. This estimate is based on the number of non-farm dwelling units and a history of carpet and rug sales. About one-half of the residential market potential was unfilled as of the end of 1954, so that an opportunity now exists for a 100 per cent expansion of annual sales of carpets and rugs.[27]

27. "The Expanding Market for Tufted Cotton Carpets and Rugs." Tufted Textile Manufacturers Association Directory, 1957, pp. 45-46.

[End]

MANUFACTURING:
Georgia's Share of the National Growth

The marked growth of manufacturing in Georgia (and in the Southeast generally) is a development in which every resident takes justifiable comfort and pride. However, in one respect, namely the state's share of total manufacturing employment in the United States, Georgia has gained only slightly over the past 27 years (Table 1). Georgia's share grew more in other respects — namely, value added by manufacturing and wages of production workers.

Probably the one best single indicator of industrial output is the series on value added by manufacturing (Table 2). Georgia's record of growth as seen by this yardstick compares favorably with both its nearby sister states and the nation as a whole. Note that this state's manufacturing growth has exceeded that of Tennessee since 1939, despite the Tennessee Valley development there. Apparently low cost electricity is not a prime inducement for manufacturing development generally. As with most other series, Florida has had the most spectacular growth.

Table 1
Georgia's Share of Total Manufacturing in the United States, Selected Indicators, 1929-1956

Years	Value Added by Manufacture	Wages of Production Workers	Manufacturing Employment
	%	%	%
1929	1.0	1.0	1.8
1939	1.1	1.2	1.9
1949	1.3	1.4	1.9
1956	1.5	1.5	2.0

Source: Calculated from series in Statistics on the Developing South, Federal Reserve Bank of Atlanta, November, 1958.

Table 2

Value Added by Manufacturing
Selected Southern States and the United States, 1929-1956
(Millions of Dollars)

Year	Ala.	Fla.	Ga.	La.	Miss.	Tenn.	Six Southeastern States	United States
1929	258	135	295	246	107	323	2,926	30,591
1939	246	116	280	199	73	318	2,573	24,487
1947	877	350	1,016	694	300	958	8,694	74,426
1949	837	365	1,001	713	222	981	8,592	75,367
1950	1,040	449	1,236	916	281	1,174	10,422	89,750
1951	1,192	569	1,333	1,074	331	1,294	11,588	102,086
1952	1,139	634	1,355	1,091	352	1,469	11,965	109,162
1953	1,311	691	1,545	1,180	457	1,685	13,469	121,659
1954	1,319	798	1,592	1,182	468	1,679	13,611	116,913
1955	1,504	1,036	1,937	1,399	551	1,931	16,200	131,598r
1956	1,589	1,130	2,093	1,494	571	1,986	17.143	139,683
1956 as ratio of 1939	6.46	9.74	7.48	7.51	7.82	6.25	7.19	5.70

Source: Statistics on the Developing South, Federal Reserve Bank of Atlanta, November, 1958.

The Southeastern Corner

by

Warren A. Walker

ECONOMIC PROGRESS OF THE SOUTHEAST

The very first article[1] of this series almost a year and a half ago dealt with some of the problems of selecting suitable economic indicators. Recently the writer was questioned again about the subject of indicators. At that time the comment was made that the Southeast no longer needed to concern itself about the selection of indicators. The thought behind this remark was that, no matter what indicator was used, the Southeast was running considerably ahead of the rest of the country.

To a degree this comment was correct, provided the statistics are correctly read. The most usually quoted figures are the percentage of gain over a previous period, and then this percentage is compared to the percentage gain of the entire country or some other area.

This is a satisfactory method of comparison as long as several facts are kept in mind. One of these facts is that percentages are always computed from a base number. If this base number is relatively small, then even a very large percentage increase may still represent quite a small figure in absolute terms such as dollars or tons. The other fact to be kept in mind is that many of these base figures for the southeastern states were quite small during the immediate postwar period.

BANK DEPOSITS

This is one of the better indicators, partially because of the relatively high degree of accuracy of the figures. Its weakness lies in the fact that banking is a highly concentrated sort of business, and the bulk of all bank deposits is in a relatively few cities. As will be seen from an examination of Table 1,[2] from 1946 to 1957 the southeastern states gained 58 per cent in bank deposits, while the United States was gaining 49 per cent. However, a close examination will show that only one southeastern state had a gain as great as the average, and the other six states were anywhere from 4 to 28 percentage points **below** the average. The highly disproportionate gain of Florida has made the average almost meaningless for the region as a whole.

Table 1
BANK DEPOSITS
(Millions of Dollars)

	1946	1957	% Change
United States	$155,901	$233,009	+ 49
Alabama	1,225	1,776	+ 45
Florida	1,740	4,077	+134
Georgia	1,702	2,507	+ 47
Mississippi	753	1,081	+ 43
North Carolina	1,853	2,457	+ 33
South Carolina	675	878	+ 30
Tennessee	1,884	2,796	+ 48
Total S. E.	$ 9,833*	$ 15,572	+ 58

*Does not equal total of column because of rounding.
Source: Federal Deposit Insurance Corporation.

Perhaps the dollar figures should be examined more closely also. The gain of the Southeast was $5,919 million as compared with a gain for the United States as a whole of $77,108 million. This latter figure is some thirteen times as large as the former. The southeastern United States as defined in this exhibit represents approximately one seventh of the total number of states and approximately one seventh of the total population of the United States. On this basis it might be expected that the national figure would be only seven times the regional figure, but, as has been shown, it was thirteen times as large.

It would now appear that these statistics have been discounted to the point where they have no significance at all, but this is not true. These figures point up several very significant, but rarely realized, economic facts. Commercial bankers have been painfully aware of one of these facts for years, namely that an industrial expansion that is based largely on branch and subsidiary plants of geographically remote corporations does not involve any major transfer of corporate funds. Sometimes the payroll is set up on a local basis, or perhaps even a local operations account, but not necessarily so. Sometimes the local bank gets no more than the manager's petty cash account. If the pattern is different from this, it is merely that the corporation wishes to show that it is a good "citizen of the community." There is not, as a general proposition, any particular advantage to the corporation in a substantial transfer of its funds.[3]

1. **The Atlanta Economic Review**, December 1957.
2. Data in Tables 1-4 supplied by the Atlanta office of The U. S. Dept. of Commerce.
3. The reasons for this are fairly obvious. The vast bulk of the money supply in the United States consists of bank deposits. A payroll check drawn on a bank in New York or Chicago can be cashed or deposited just as readily as one drawn on a bank in Atlanta or Birmingham. Much the same may be said of any other expenditure of the corporation.

A very large percentage of the industrial development in the Southeast has been of the branch operation type. Indeed the Southeast has, with rare exceptions, always been heavily dependent on outside capital.[4]

VALUE OF CONSTRUCTION CONTRACTS

In Table 2 are shown some statistics on the value of construction that provide an interesting contrast with Table 1. In this instance, using the raw percentages we find a 220 per cent increase for the Southeast, and 61 per cent for the United States as a whole. On a dollar basis the Southeast increased expenditures in this activity $2,490 million, and the United States increased $12,160 million. On this basis the ratio of the nation to the region is less than five to one instead of more than thirteen to one as in the case of bank deposits.

Table 2
VALUE OF CONSTRUCTION CONTRACTS
(Millions of Dollars)

	1946	1957	% Change
United States	$20,016	$32,176	+ 61
Alabama	141	377	+167
Florida	288	1,358	+371
Georgia	196	537	+174
Mississippi	45	278	+518
North Carolina	180	445	+147
South Carolina	119	235	+ 97
Tennessee	163	392	+140
Total S. E.	$ 1,132	$ 3,622	+220

Source: Statistical Abstract of the United States.

AGRICULTURAL INDICATORS

Many of the agricultural indices that in times past were good indicators of the economic progress of an area are no longer valid. While it is still possible to obtain a dollar and cents comparison, the distributions obtained tend to be the result of administrative decisions rather than competitive forces. (Reference is of course made to those crops that are subject to governmental restrictions in the form of controlled acreage, export-import quotas, or price supports.)

Table 3
CHICKENS HATCHED COMMERCIALLY
(Millions)

	1946	1957	% Change
United States	1,265.5	2,096.7	+ 66
Alabama	10.3	98.7	+ 858
Florida	12.8	30.0	+ 234
Georgia	36.9	278.3	+ 654
Mississippi	6.2	68.4	+1003
North Carolina	35.2	116.4	+ 231
South Carolina	7.4	20.8	+ 181
Tennessee	11.7	38.0	+ 225
Total S. E.	120.4*	650.6	+ 440

*See note to Table 1.
Source: Agricultural Marketing Service, U. S. Department of Agriculture.

Fortunately, there are figures available on other types of agricultural activities that are still operating in a relatively open market. It is in this type of activity that the South has shown some of its best gains. One of these is the volume of chickens hatched commercially (Table 3). A comparison of the 1957 figures with those for 1946 reveals that the Southeast experienced an increase in volume equal to 530.2 million birds—a very favorable comparison with the national figure of 831.2 million birds increase for the period. As a result of this region's producing such a large percentage of the total national increase, the Southeast has risen from a position of producing less than a tenth of the total of this activity to a 1957 position of producing more than a fourth of the total volume.

In the value of commercial broilers produced, one also finds an example of a situation in which the Southeast has scored really remarkable gains (Table 4). Of a total national increase between the years 1946 and 1957 of $609 million from this activity, $283 million (virtually one-half) was received by the Southeast.

Table 4
VALUE OF COMMERCIAL BROILERS PRODUCED
(Millions of Dollars)

	1946	1957	% Change
United States	269	878	+ 226
Alabama	4	60	+1400
Florida	6	6	0
Georgia	20	150	+ 650
Mississippi	2	38	+1800
North Carolina	14	59	+ 321
South Carolina	4	9	+ 125
Tennessee	2	12	+ 500
Total S. E.	51*	334	+ 555

*See note to Table 1.
Source: Agricultural Marketing Service, U. S. Department of Agriculture.

As a final analysis it may be worthwhile to examine an indicator, the activity of which operates in a partially controlled market. The market for beef cattle, while not coming importantly under the parity program, has been partially protected because of import quotas. The comparison in Table 5 is not in dollars but in thousands of head of cattle, and it reveals that the southeastern states have provided approximately 20 per cent of the total national increase since 1949. This is a very good showing considering that a considerable portion of the land area of the Southeast is not particularly well-suited to beef cattle production.

Table 5
BEEF CATTLE ON FARMS
(Thousand Head)

	1949	1958	% Change
United States	41,560	60,355	+ 45
Alabama	484	1,197	+147
Florida	926	1,559	+ 68
Georgia	427	1,040	+143
Mississippi	637	1,658	+160
North Carolina	142	423	+198
South Carolina	104	370	+256
Tennessee	497	815	+ 64
Total S. E.	3,217	7,060*	+119

*See note to Table 1.
Source: Agricultural Marketing Service, U. S. Department of Agriculture.

4. See "The Southeastern Corner," Atlanta Economic Review, January 1958.

MARCH 1959

ATLANTA AREA ECONOMIC INDICATORS

ITEM	March 1959	February 1959	% Change	March 1958	% Change	% Change Three Months '59 over Three Months '58
EMPLOYMENT						
Job Insurance (Unemployment) Payments	$512,904	$417,674	+22.8	$758,452	−32.4	−28.4
Job Insurance Claimants†	7,569	8,076	− 6.3	12,749	−40.6	−31.3*
Total Non-Ag. Employment	346,850	343,850r	+ 0.9	337,250r	+ 2.8	+ 1.2*
Manufacturing Employment	84,550	84,200	+ 0.4	82,950r	+ 1.9	− 1.0*
Average Weekly Earnings, Factory Workers	$81.79	$79.19r	+ 3.3	$72.74r	+12.4	+ 8.2*
Average Weekly Hours, Factory Workers	41.1	40.2r	+ 2.2	38.9	+ 5.7	+ 4.1*
Index of Help Wanted Ads (Seasonally Adjusted, 1947-49 Avg.=100)	167.8	156.0	+ 7.6	105.5	+59.1	+25.4
CONSTRUCTION						
Number of Building Permits§	959	591	+62.3	746	+28.6	− 2.9
Value of Building Permits§	$8,344,484	$20,588,611	−59.5	$4,784,213	+74.4	+76.5
Employees	22,400	20,800r	+ 7.7	17,650r	+26.9	+29.9*
FINANCIAL▲						
Bank Debits (Millions)	$1,983.5	$1,735.8	+14.3	$1,586.9	+25.0	+17.1
Bank Deposits (Millions) (Last Wednesday)	$1,216.3	$1,218.3	− 0.2	$1,141.3	+ 6.6	+10.4**
OTHER						
Department Store Sales Index (Adjusted 1947-49=100)	155	161	− 3.7	157	− 1.3	+ 8.0¶
Retail Food Price Index (1947-49=100)	114.9	115.5	− 0.5	119.3	− 3.7	− 1.0**
Number Telephones in Service	331,175	327,523	+ 1.1	310,058	+ 6.8	+ 6.4**
Consumer Price Index	124.3	124.4 (Dec.)	− 0.1	124.9	− 0.5	----

r—Revised *Average month **End of period ¶—Based on retail dollar amounts
§City of Atlanta only. N. A.—Not Available ▲Data from members of the Federal Reserve System only.
†New series. Covers unemployed federal employees and unemployed veterans in addition to those covered by Georgia law. Claimants include both the unemployed and those with job attachments, but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

ATLANTA BUSINESS ACTIVITY

Business activity continued to improve in Atlanta during the month of March. Improvement is noted for the January to March period in each of the indicators listed on the opposite page except manufacturing employment (down 1.0 per cent) and number of building permits (down 2.9 per cent).

Not least among the factors showing improvement was **total nonagricultural employment** which at 346,850 was at an all-time high for March. During the month of March, **manufacturing employment** increased 350 workers and total nonagricultural employment increased 3,000 workers. **Construction employment** increased 1,600 over February and 4,750 over March 1958. **Unemployment** stood at 4.1 per cent of the total civilian labor force as compared with 5.9 per cent in March 1958. The seasonally adjusted **index of help wanted ads** rose to 167.8 per cent of the 1947-49 average, as over 10,000 help wanted ads were placed in Atlanta newspapers in March. The number of **job insurance claimants** in March 1959 was more than 40 per cent below the same month in the previous year. In spite of a sharp dollar increase in March 1959, the value of **job insurance payments** during that month was 32.4 per cent below March a year ago.

Weekly earnings of factory workers, at $81.79 in March, were $9.05 greater than a year ago for a 41.1 hour week as compared with a 38.9 hour week in March 1958. And the worker's dollar could be expected to stretch just a bit farther because of a slight drop in the **Consumer Price Index** for the Atlanta area.

A most revealing measure of the growth of Atlanta over the past 28 years is contained in the table below, developed by the Atlanta Chamber of Commerce.

ATLANTA, GEORGIA, AREA GROWTH STATISTICS

	Population City	Population Metropolitan Area	Retail Sales
1930	270,366	370,424	$ 155,000,000
1940	302,288	442,294	225,000,000
1950	331,314	668,022	745,072,000
1959	512,000	984,000	('58) 1,300,000,000
	Bank Deposits	**Bank Clearings**	**Number of Telephones**
1930	$ 156,411,179	$ 2,258,286,149	69,258
1940	350,061,098	3,430,900,000	94,922
1950	887,461,223	12,910,100,000	204,686
1958	1,276,234,411	20,839,000,000	375,429
	Water Meters	**Gas Meters**	**Gainfully Employed**
1930	54,428	48,796	182,000
1940	66,242	64,344	205,900
1950	92,078	120,512	303,000
1958	175,748	228,790	388,500
	Manufacturing Plants No. of	**Value Added by Manufacture (U. S. Business Census)**	**Automobiles Fulton County**
1930	637	$ 96,526,000 (1929)	64,243
1940	883	194,793,000 (1939)	99,901
1950	1,210	237,448,000 (1947)	147,020
1958	1,650	552,009,000 (1954)	204,933
	Residential Units No. of	**Building Permits Dollar Value**	**Electric Meters**
1930	90,200	8,924,099	64,879
1940	121,450	14,558,861	88,504
1950	201,000	48,053,963	150,597
1958	285,000	108,157,144	242,919
	Postal Receipts	**Scheduled Commercial Air Transport Flights Daily**	**Wholesale Sales (U. S. Business Census)**
1930	$ 4,741,775	18	(1935) $ 328,474,000
1940	5,392,896	42	(1939) 465,115,000
1950	12,348,548	194	(1948) 2,284,901,000
1958	20,440,376	420 ('59)	(1954) 3,135,770,000

INDUSTRIAL BUREAU ATLANTA CHAMBER OF COMMERCE MARCH, 1959

Courtesy of **The City Builder** (March, 1959), published by the Atlanta Chamber of Commerce.

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. . . by Ray G. Jones, Jr., and Claude A. Campbell

The article on Georgia's tufted textile industry appearing in this issue of **The Atlanta Economic Review** is condensed from Research Paper Number 12.

For copies of the studies named above, send request to the Bureau of Business and Economic Research, School of Business Administration of Georgia State College of Business Administration, 33 Gilmer Street, S. E., Atlanta 3, Georgia. Single copies available without charge except for Research Paper Number 10 *and Bulletin Number* 3 *as noted above.*